

AR49

Full

**Annual
Report to
Shareholders
1967**



**Hugh Russel
& Sons, Limited**



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Hugh Russel & Sons, Limited

FEBRUARY 21, 1968

DIRECTORS

B. N. APPLE, Q.C.	<i>Salter, Reilly, Jamieson & Apple,</i>	TORONTO
R. P. K. COUSLAND	<i>Salter, Reilly, Jamieson & Apple,</i>	TORONTO
J. P. FOSTER	<i>Vice-President, Hugh Russel & Sons, Limited,</i>	TORONTO
M. D. GLENN	<i>President, Russelsteel Limited,</i>	MONTREAL
R. HARTOG	<i>President, Kitchen Installations Ltd.,</i>	MIDLAND
W. S. JAMIESON, Q.C.	<i>Salter, Reilly, Jamieson & Apple,</i>	TORONTO
K. D. MOONEY	<i>President, Valley Camp Coal Company of Canada Ltd.,</i>	TORONTO
J. D. REILLY, Q.C.	<i>Salter, Reilly, Jamieson & Apple,</i>	TORONTO
L. A. ROBIDOUX	<i>Division Manager, Russelsteel Limited,</i>	MONTREAL
A. D. RUSSEL	<i>President, Hugh Russel & Sons, Limited,</i>	TORONTO
G. D. RUSSEL	<i>Chairman, Hugh Russel & Sons, Limited,</i>	MONTREAL
G. D. SHEARER, C.A.	<i>Treasurer, Hugh Russel & Sons, Limited,</i>	MONTREAL
J. W. VINGOE	<i>Vice-President, Massey Ferguson Industries Limited,</i>	TORONTO

EXECUTIVE OFFICERS

G. D. RUSSEL	<i>Chairman of the Board</i>
A. D. RUSSEL	<i>President</i>
M. D. GLENN	<i>Vice-President</i>
J. P. FOSTER	<i>Vice-President</i>
J. D. REILLY, Q.C.	<i>Secretary</i>
G. D. SHEARER, C.A.	<i>Treasurer</i>

REGISTRARS AND TRANSFER AGENTS

	<i>Royal Trust Company</i>
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STOCK EXCHANGES

	<i>Montreal and Toronto</i>
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AUDITORS AND SOLICITORS

AUDITORS	<i>Clarkson, Gordon & Co.</i>
SOLICITORS	<i>Salter, Reilly, Jamieson & Apple</i>

SUBSIDIARY COMPANIES

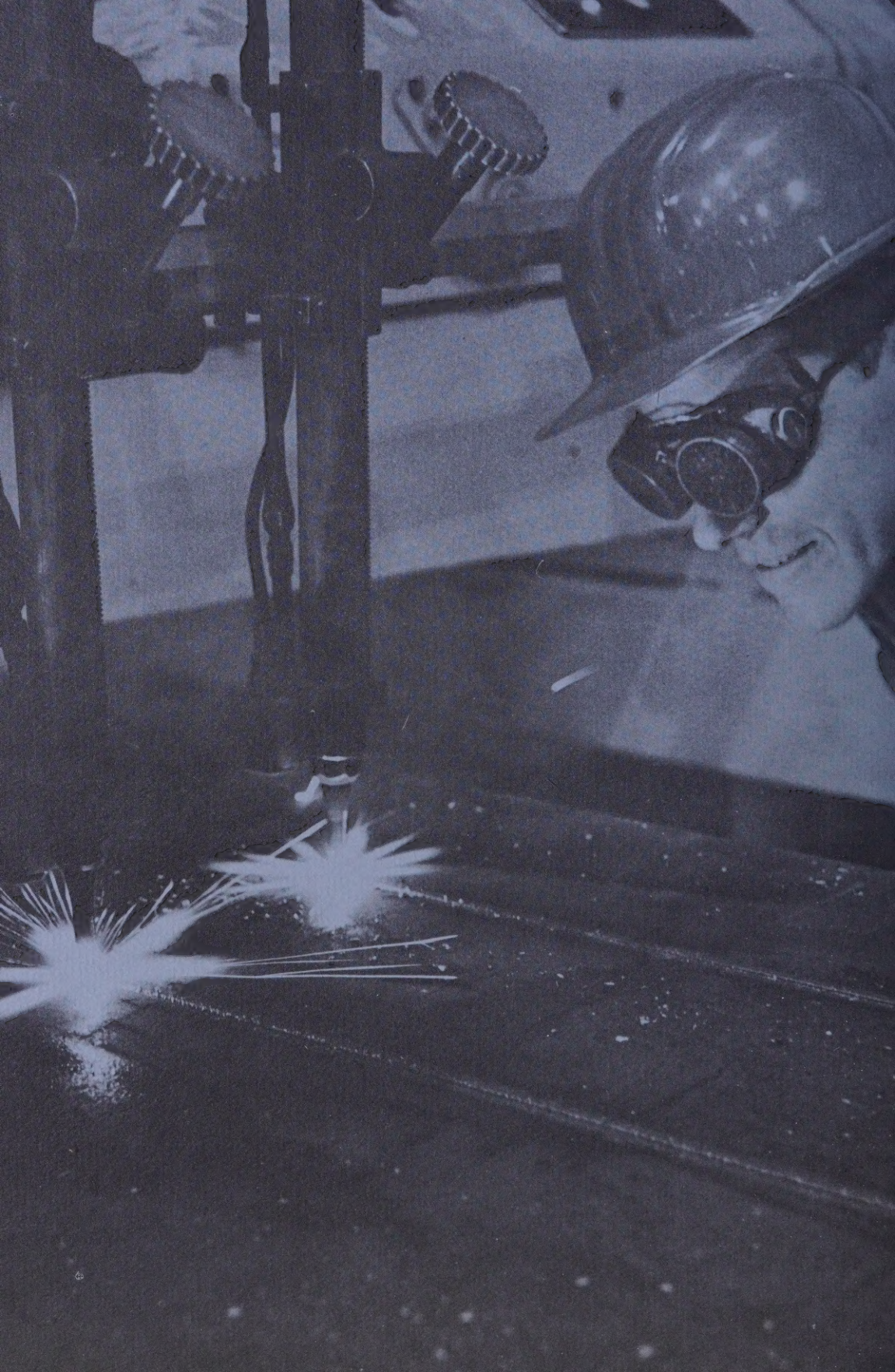
RUSSELSTEEL LIMITED
RUSSELSTEEL COMPANY
MASTER MECHANICAL MANUFACTURING LIMITED
BARKER-THORNE LIMITED

EXECUTIVE OFFICES

8 KING ST. E. — TORONTO

ANNUAL MEETING

ROYAL YORK HOTEL — TORONTO — MARCH 21ST, 1968



Report from the President

HIGHLIGHTS 1967

Hugh Russel & Sons, Limited achieved record sales in 1967 largely as a result of the acquisition of new operations. Sales in 1967 are, therefore, not comparable to sales reported in 1966. On a fully comparable basis, volume was lower by approximately 10%.

This sales decline, in large measure, accounts for the decline in profits recorded during the year. It was also necessary during 1967 to absorb the cost of reorganizing acquired operations.

Market conditions in the steel distribution industry were very unsettled during 1967. The five month construction strike in Metropolitan Toronto and work stoppages in many other steel consuming trades across the country, coupled with a general weakening in demand, resulted in a loss of tonnage. In the face of difficult marketing conditions, it is significant that gross margins earned in relation to sales improved in 1967 over 1966. With the costs and disruption associated with the merging of new activities now behind us, we expect a considerable improvement in Russel-steel's contribution in 1968.

Substantial growth in sales and profits in our manufacturing activities enabled us to offset, to a significant degree, the earnings weakness in

steel distribution.

The results achieved in the year just past highlight, to us, in a very clear manner, the importance to the company of its objective of upgrading and stabilizing earnings through diversification.

For over 140 years, the steel distribution business has been the backbone of our corporate effort. Today this business represents the financial strength and underlying earning power which is fundamental to achieving our corporate goals.

Steel is as stable as it is indestructible. Inventory is not subject to deterioration of either price, quality or obsolescence. The growth of the industry is fundamental to the growth of our national productive capacity.

Your company's need now is to improve on the sound base built through the efforts of many past years. The objective we have set for ourselves, we propose to achieve by a programme of acquisition and diversification in a field we have chosen to call "Industrial Service".

INDUSTRIAL SERVICE

Industrial service encompasses a wide spectrum of commercial activity which concentrates on engineering, manufacturing and distribution of goods and services to industry.

Examples of this activity would be the Steel Service Center operations of Russelsteel; the design and manufacture of specialized production machinery as performed by Master Mechanical and Barker-Thorne. Further examples might be the design and manufacture of electronic control equipment; metal forming such as forging, casting and rolling; metal improvement such as heat treating, grinding and polishing and providing engineering consulting services, etc.

This field is not only large, but one that is certain to grow in importance as secondary industry becomes increasingly specialized and sophisticated.

PLANNING

Only through detailed, long range planning can we hope to achieve our goals. More than two years of such work now lie behind us. There is a long time span, three to five years at least, between the point when an original idea is formalized and the tangible evidence of major results. Over this period it is difficult to communicate plans and strategies which could be jeopardized by premature disclosure.

We are now at the point where the evidence of our planning is beginning to appear.

PROGRESS TO DATE

The first indication of a broadening of corporate activity was the acquisition of Master Mechanical in August of 1965.

Early in 1967, management control was assumed of the steel service center division of Robertsteel (Canada) Limited. The merging of these new operations into Russelsteel was effected by mid-year.

Management control of Barker-Thorne Limited was assumed by Master Mechanical in June, followed by formal acquisition of this company on November 1st, 1967.

These new activities contributed more than one third of our earnings in 1967, even after absorbing the full costs of integrating and merging activities in several areas.

A number of additional steps are in the planning stage, several of which are well advanced.

EARNINGS RECORD

The formal accounting record for 1967 recognizes earnings from new operations only from the date of acquisition, while including all the "one time" costs associated with reorganization. To give an indication of our increased earning power, we

have prepared a pro forma earnings statement for 1967, including sales and earnings from all company controlled activity as it would have appeared had control been effective for the entire year. This is compared with the formal accounting record and indicates an important increase in sales, profits and earnings per share.

**PRO FORMA STATEMENT
OF CONSOLIDATED EARNINGS
FOR THE YEAR ENDED
DECEMBER 31 1967**

	ACTUAL	PRO FORMA
Sales \$ (000)	32,474	37,774
Net profit after taxes \$ (000)	435	487
Net per common share \$. .	1.41	1.58

MANAGEMENT

While specific new activities and facilities are of obvious interest, it is the management skill of the people involved which, in our opinion, is critical. Consequently, our interest in a situation which can make no contribution to our management skills is very limited, no matter how attractive it otherwise might appear. But a situation which adds to our

management strength is of great interest and could well take us into new areas of opportunity beyond our present guidelines.

FORECAST 1968

The economic outlook presents a mixture of conditions both favourable and unfavourable to our existing operations.

On one hand, interest rates are at the highest levels in our history and there are growing warnings of tighter credit restrictions. These factors are bound to have an adverse effect on the heavy construction and basic production segments of the economy which are an important factor in steel distribution.

On the other hand, consumer goods industries and residential construction should be moving ahead, strengthening the demand for steel. Capital spending on equipment, in response to the growing cost squeeze, should show improvement in 1968, thereby providing good prospects for the manufacturing end of the business.

On balance, given stabilizing or improving business conditions, we would expect the company to turn in a solid increase in earnings in 1968, with marked growth possible from new and recent acquisitions.

DIRECTORS

It is with sincere regret that we record the death of Mr. Geoffrey E. Phipps on September 9th, 1967. We wish to acknowledge with deep appreciation the wisdom of his contribution to our Board and the encouragement his presence imparted to our meetings.

We also record the resignation of Mr. J. G. K. Strathy on completion of six years outstanding service as a member of the Board. His assistance over the formative years as a public company is gratefully acknowledged and we are assured of his wise counsel and continued interest in the progress of the company.

Mr. K. D. Mooney, President of The Valley Camp Coal Company of Canada Limited and Mr. G. D. Shearer, Treasurer, Hugh Russel and Sons, Limited, were appointed to fill the vacancies on the Board.

The Directors wish to express their appreciation to all the customers, suppliers, employees and shareholders of the company for their continued confidence and support.



President

February 21st, 1968

Russelsteel Limited

Service ... the key to success

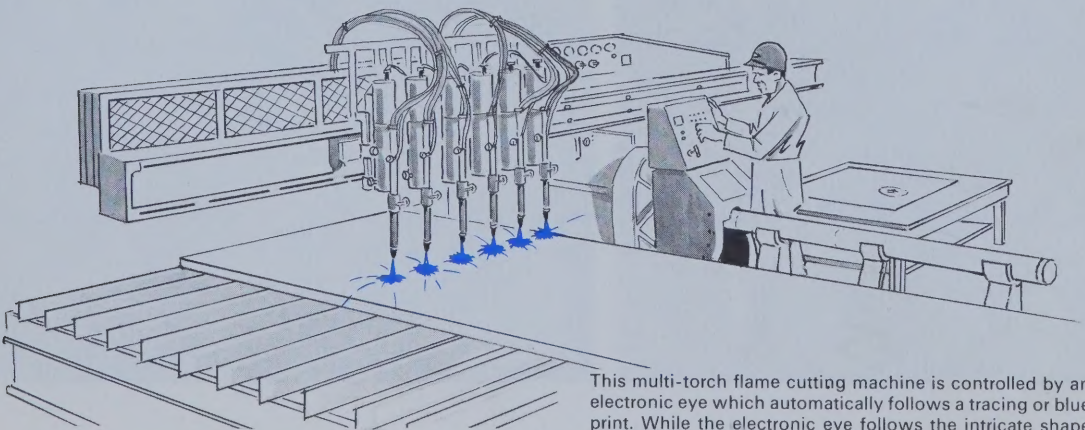
To meet the demands of modern production scheduling and to release capital tied up in inventory, manufacturing plants find many advantages in the savings offered by Russelsteel Service Centers. The mining industries, the chemical process industries, secondary industry, the forest products industry; even the basic steel producers themselves rely on Steel Service Centers to supply from inventory, and often on an emergency basis, the steel which enables them to keep the wheels of their production lines in motion.

With the continuing development of new and improved steels, Russelsteel Service Centers are called upon to supply more and more technical assistance to customers in steel selection and fabrication.

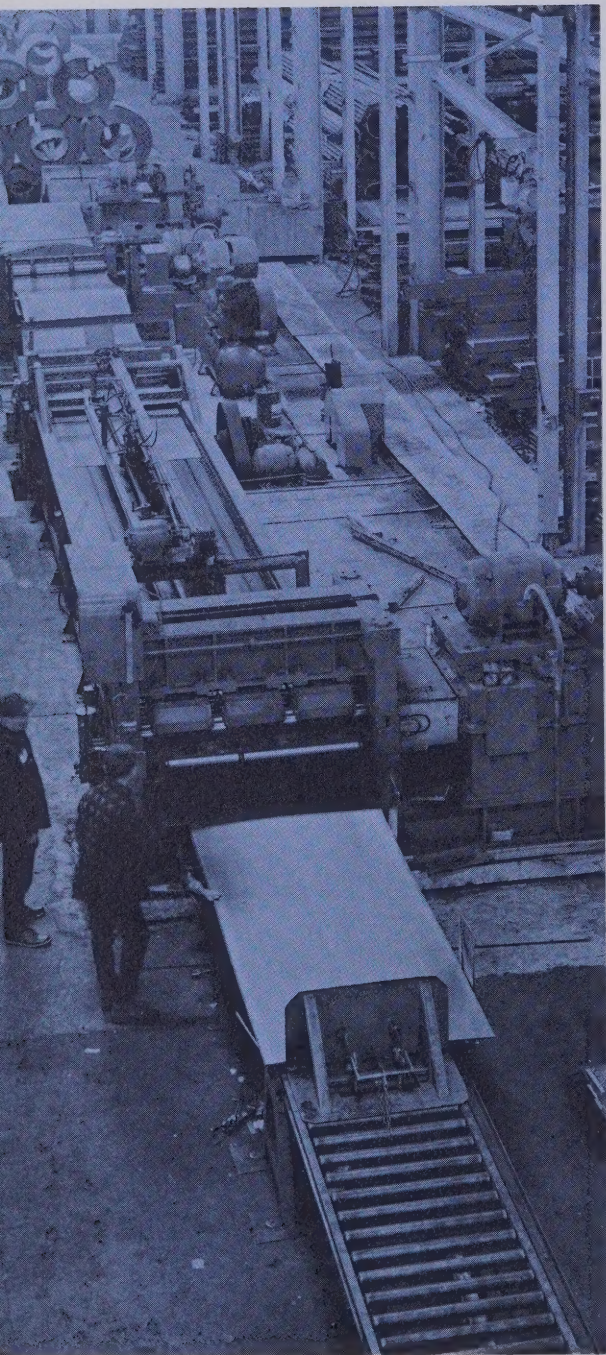
To-day, a large and growing percentage of steel is ordered pre-cut to specific size, ready to feed directly into the customer's press. All Russelsteel Service Centers are equipped with the most modern machinery to supply this expanding market.



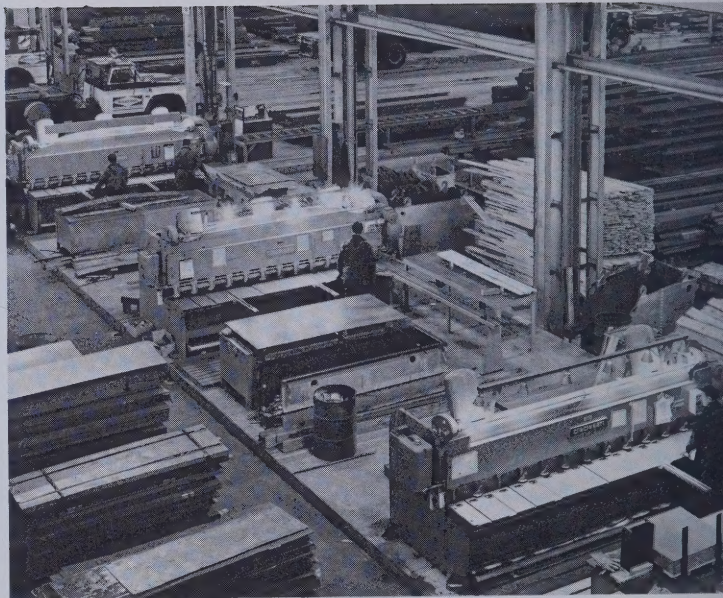
This horizontal band saw produces fast, accurate, repetitive cutting to production tolerances.



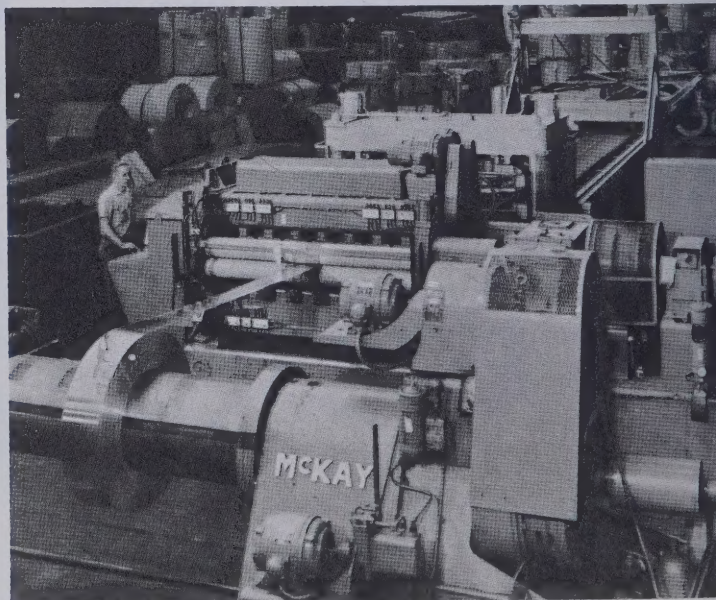
This multi-torch flame cutting machine is controlled by an electronic eye which automatically follows a tracing or blue print. While the electronic eye follows the intricate shape of the drawing, the torches cut this identical shape from steel plate of virtually any thickness. Up to six replicas can be produced quickly and accurately in one cycle. Customers are assured of receiving a finished shape exactly to the size and scale of their own drawings.



Large coils of steel sheet are fed into this automatic cut-to-length line which rolls the material to an exacting degree of flatness and cuts it into individual sheets of specified length. All this is performed at high speeds and to close tolerance.



This illustration shows a small segment of the large battery of shears which are manned by skilled operators. These machines process work too specialized for high speed production machinery. Sheet and plate in thicknesses up to $\frac{1}{2}$ " can be tailored to suit every customer's need in this manner.



This precision slitting machine unwinds a 10 ton coil of steel up to 60" wide, automatically and continuously cuts it into as many separate strips of varying widths as required, then recoils each strip ready for shipment to the customer.

Steel inventories to meet customers' requirements

Russelsteel Service Centers carry large and diversified steel stocks far beyond the size and specification range of any one steel producer. In order to supply a complete range of carbon and stainless steels for every purpose it is necessary to draw from the steel markets of the world.

This inventory is ready to be cut, shaped and delivered promptly to customers all over Canada.

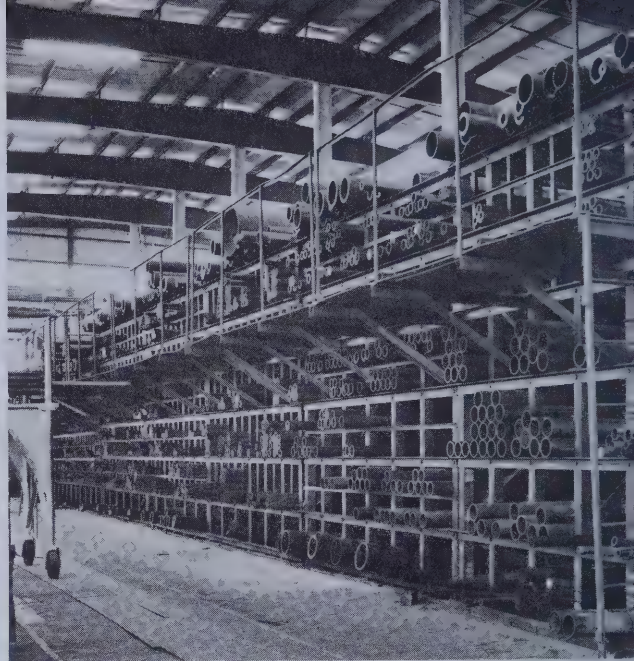
Hot Rolled or Cold Finished Bars are stocked in Rounds, Squares, Hexagons, Flats, Half Oval and Half Round shapes in many special analyses at all Russelsteel Service Centers.



Structural Steels such as "I" Beams, Wide Flange Beams, Angles, T's and Channels are stocked at Russelsteel Service Centers in a full range of sizes, with some individual pieces weighing up to three tons.



This 20 ton overhead crane easily handles a large steel plate which is being moved to the cutting department for processing. Steel plate in the widest selection of qualities, lengths, widths and thicknesses from 3/16" to 12" in carbon steels, and a wide range of alloy and stainless steel is carried in stock at Russelsteel.



ABOVE. A large and diversified inventory is maintained of pipe and tubular products. Whether it be Seamless Mechanical Tubing, Electric Welded Tubing, Boiler Tubing or Hollow Structural Sections, Russelsteel has it in stock for immediate delivery.



ABOVE LEFT. Sheet Steel Coils in an almost endless array of widths and thicknesses are stocked ready for the slitter or cut-to-length line. Customers often ship their own material directly to Russelsteel for storage. When they are ready to use this material in their own manufacture, Russelsteel will cut it to the required size and ship to meet production schedules. Another Russelsteel service.

LEFT. This section of a Russelsteel Service Center gives an indication of the large inventories of steel sheets which have been cut to standard sizes for off-the-floor delivery. Hot Rolled, Cold Rolled Galvanized and Stainless Steel Sheetting of prime quality is maintained in humidity controlled storage areas to ensure maintenance of surface perfection.



SERVICE CENTERS

MONTREAL • TORONTO • HAMILTON • WINNIPEG

Master Mechanical Manufacturing Limited

Designers and builders of special machinery and equipment

The drive for increased production and reduced costs through automation has created a rapidly expanding market for highly sophisticated special machinery and equipment. Master Mechanical's business is designing and building such equipment for industry.

MASTER MECHANICAL'S DESIGN DEPARTMENT—ONE OF THE BEST IN THE BUSINESS.

Basic to any creative engineering firm are top engineers who can produce ideas to solve given problems, and designers who can incorporate these ideas into practical, efficient machinery. Master Mechanical's staff has been developed from the cream of the crop in both North America and Europe. Proof of their ability is best illustrated by the many complex and unique machines they

Master Mechanical's air conditioned design office contains 60 "boards", 2 full sized lofting tables, a full scale Revolute printing machine and an up-to-date technical reference library.

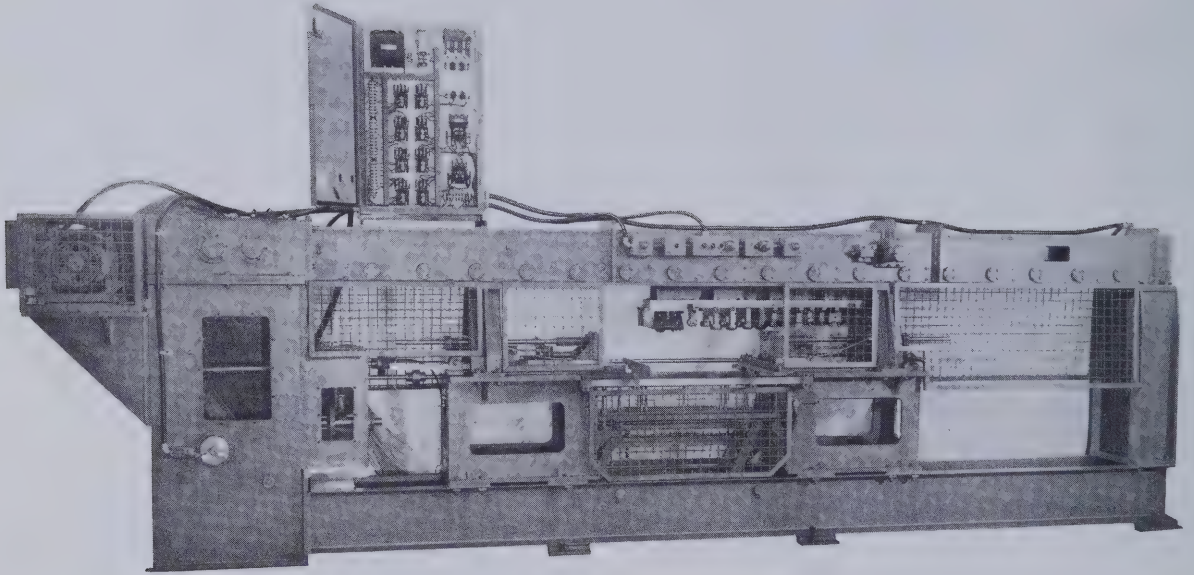
have designed and built for organizations throughout the world.

QUALITY CONTROL . . .

At Master Mechanical, "Quality Control" is more than just standard procedure. Once a design and course of action has been approved and a job enters the plant, control techniques and systems are established to ensure that customers receive the finest job possible.

Master Mechanical's staff has the finest inspection devices with highly sophisticated measuring gauges for control purposes . . . no matter what specifications are called for, company inspectors have the capability and the necessary tools to see that they are maintained.

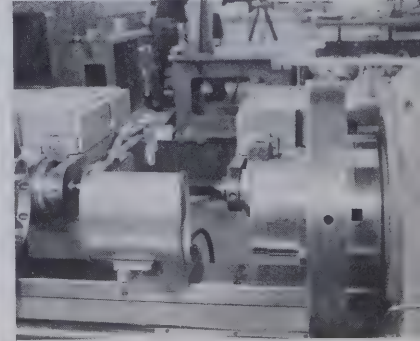
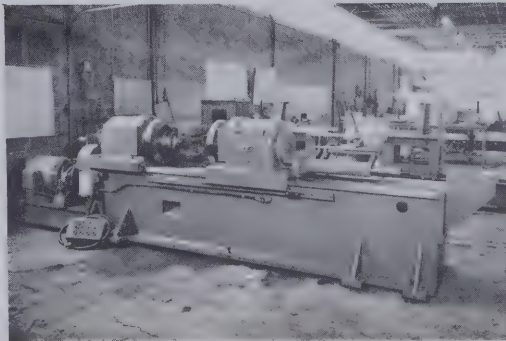
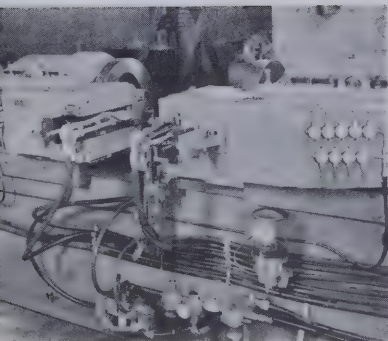




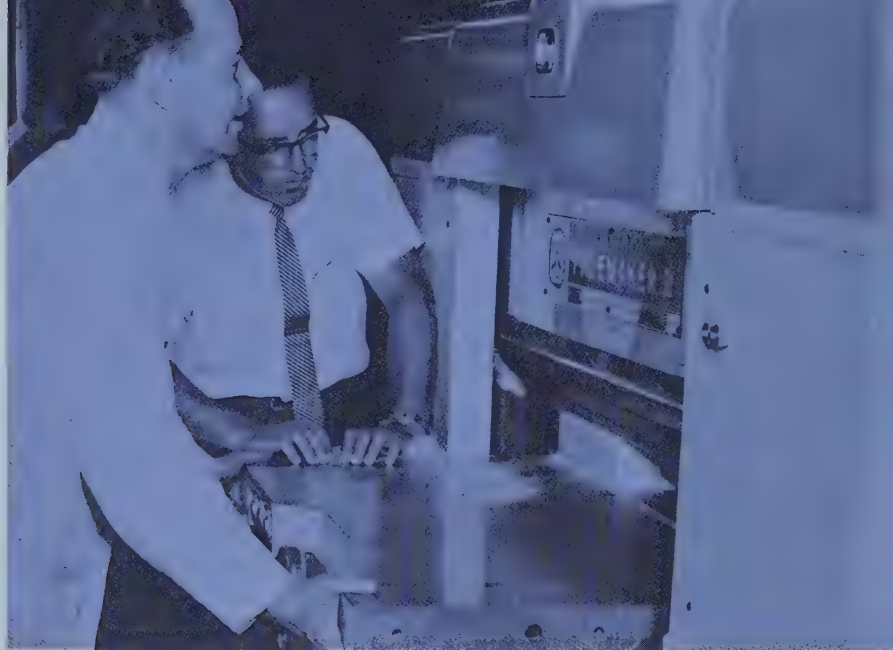
A Case History

An excellent example of a part of a fully automated production line are the muffler-making machines illustrated. Built by Master Mechanical, they are capable of producing finished mufflers of varying sizes at the rate of 360 per hour. Previously, the manufacturing process involved many hand operations that were expensive, time-consuming and lacked the precision provided by these machines.

The photographs on the opposite page represent some of the machinery and equipment built by Master Mechanical.

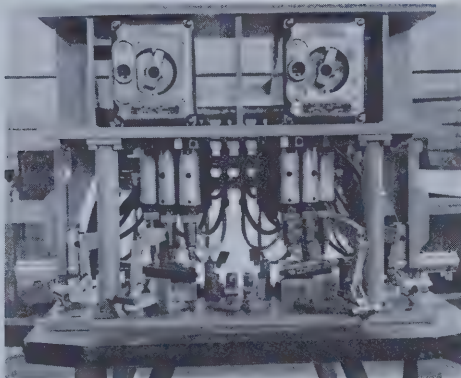


Paper Shear for Miehle Goss Dexter.



RIGHT

Press Welder built for General Motors.

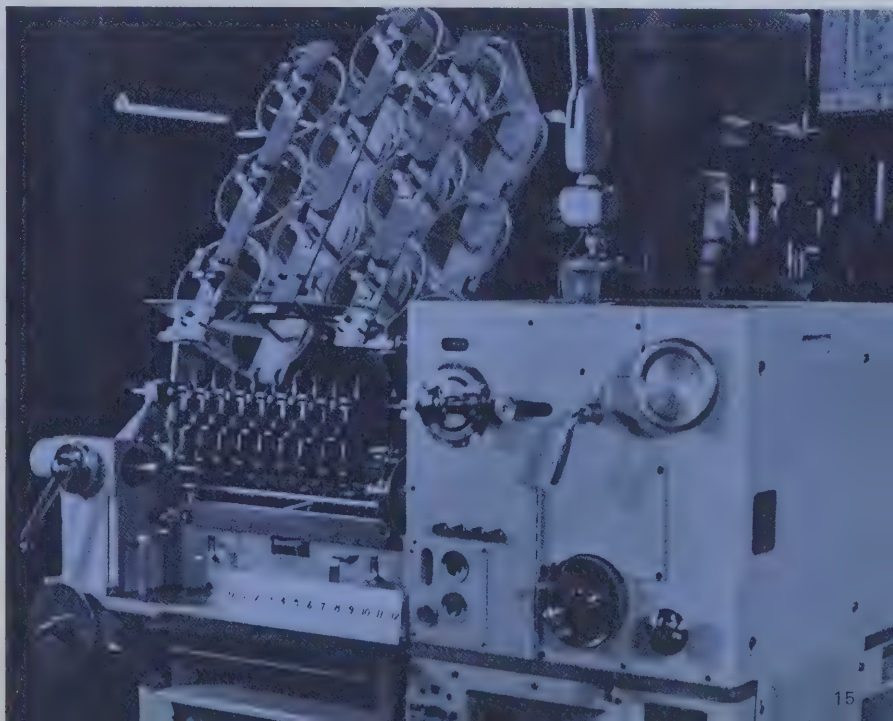


FAR RIGHT

Precision inspection 18" diameter turn-
table for United Aircraft, surface and
radial movement within .0001" T.I.R.

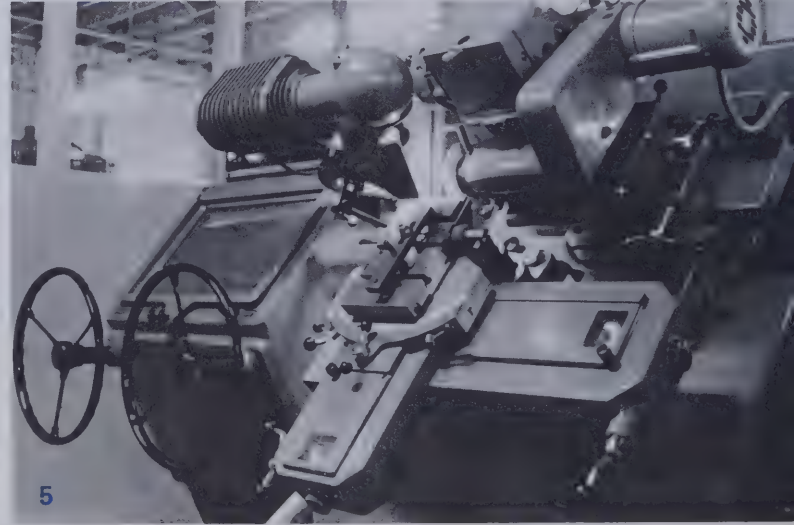
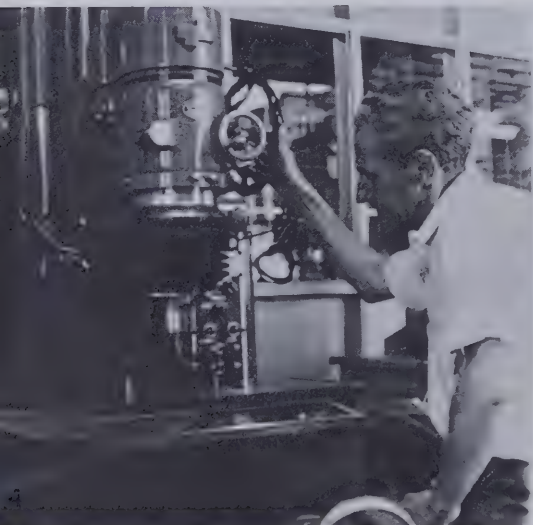
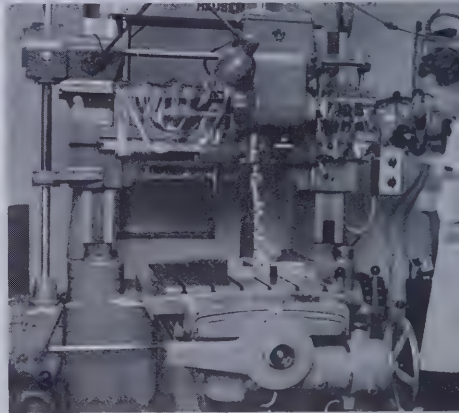
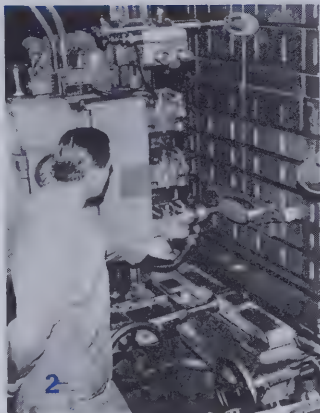
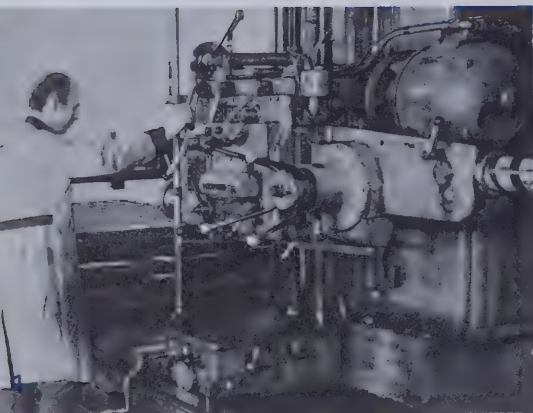


Coil winding machine built for the
Northern Electric Company Limited.



Master Mechanical has the equipment to build the machinery it designs

Master Mechanical's equipment is the best available. The photographs below represent a cross section of close to 150 machines, many of which are installed in temperature controlled rooms in order to work to fine tolerances . . . and at Master Mechanical they normally work to tolerances of .0001".



- 1 Cincinnati Gilbert horizontal boring mill.
- 2 Three spindle Keller tracing machine.
- 3 Hauser no. 5 Jig Borer,
in temperature controlled room.
- 4 Moore no. 3 Jig Grinder,
in temperature controlled room.
- 5 Petewe optical profile grinder,
in temperature controlled room.



**MASTER
MECHANICAL**
MANUFACTURING LIMITED

139 WENDELL AVENUE

TORONTO

Hugh Russel & Sons, Limited

and its subsidiary companies

Financial Summary

(Dollar figures in thousands)

	1967	1966	1965	1964	1963	1962	1961	1960
OPERATING RESULTS								
Net Sales	\$32,473	\$24,157	\$22,975	\$19,436	\$15,015	\$14,218	\$14,051	\$13,406
Earnings before deducting depreciation, interest on long-term debt, minority interest and income taxes	\$ 1,210	\$ 1,354	\$ 1,309	\$ 1,125	\$ 631	\$ 506	\$ 397	\$ 365
Depreciation	\$ 245	\$ 205	\$ 155	\$ 133	\$ 121	\$ 122	\$ 131	\$ 127
Interest on long-term debt	\$ 153	\$ 156	\$ 50	\$ 53	\$ 58	\$ 63	\$ 68	\$ 74
Income Taxes	\$ 371	\$ 488	\$ 577	\$ 461	\$ 140	\$ 129	\$ 32	\$ 49
Minority interest	\$ 6	—	—	—	—	—	—	—
Net Earnings	\$ 435	\$ 505	\$ 527	\$ 478	\$ 312	\$ 192	\$ 166	\$ 115
% of Net Sales	1.3%	2.1%	2.3%	2.5%	2.1%	1.4%	1.2%	0.9%
% of Shareholders' Equity	10.4%	12.9%	13.8%	14.2%	9.9%	6.3%	5.8%	4.2%
SHAREHOLDER DATA								
Net earnings per common share	\$ 1.41	\$ 1.71	\$ 1.80	\$ 1.65	\$ 1.08	\$.67	\$.57	\$.40
Cash flow per common share	\$ 2.54	\$ 2.41	\$ 2.36	\$ 2.11	\$ 1.50	\$ 1.09	\$ 1.03	\$.84
Dividends per common share	\$.80	\$.80	\$.75	\$.60	\$.60	\$.45	—	—
% Dividend to net earnings	56%	47%	42%	36%	56%	67%	—	—
Number of Common Shares outstanding (thousands)	308	294	292	289	288	288	288	288
Number of Common shareholders	643	667	691	620	661	667	N.A.	N.A.
BALANCE SHEET DATA								
Current Assets								
Trade receivables	\$ 5,952	\$ 4,353	\$ 4,021	\$ 3,708	\$ 2,868	\$ 2,361	\$ 2,447	\$ 2,170
Inventories	7,825	7,186	5,929	4,513	4,507	3,929	4,403	3,486
Prepaid expenses and deposits	314	162	76	53	36	39	41	27
Total Current Assets	\$14,091	\$11,701	\$10,025	\$ 8,273	\$ 7,411	\$ 6,329	\$ 6,891	\$ 5,683
Current Liabilities								
Bank Borrowing	\$ 5,000	\$ 3,215	\$ 3,343	\$ 2,517	\$ 3,089	\$ 2,184	\$ 2,487	\$ 2,032
Payables and accrued charges	5,232	4,775	2,921	2,997	1,530	1,511	1,923	1,319
Income Taxes payable	153	117	211	329	81	122	32	—
Total Current Liabilities	\$10,385	\$ 8,107	\$ 6,475	\$ 5,843	\$ 4,700	\$ 3,817	\$ 4,442	\$ 3,351
Working Capital	\$ 3,706	\$ 3,594	\$ 3,550	\$ 2,430	\$ 2,710	\$ 2,512	\$ 2,449	\$ 2,332
Fixed assets at cost	\$ 5,045	\$ 4,415	\$ 4,041	\$ 3,001	\$ 2,321	\$ 2,288	\$ 2,215	\$ 2,050
Less Accumulated depreciation	\$ 1,785	\$ 1,282	\$ 1,140	\$ 905	\$ 940	\$ 829	\$ 711	\$ 554
Net Fixed Assets	\$ 3,260	\$ 3,133	\$ 2,901	\$ 2,096	\$ 1,381	\$ 1,459	\$ 1,504	\$ 1,496
Other assets	\$ 514	—	—	—	—	—	—	—
Net Tangible Assets	\$ 7,480	\$ 6,727	\$ 6,451	\$ 4,526	\$ 4,091	\$ 3,971	\$ 3,953	\$ 3,828
Financed by								
Long term debt	\$ 2,399	\$ 2,453	\$ 2,500	\$ 671	\$ 730	\$ 819	\$ 905	\$ 989
Deferred income taxes	\$ 200	\$ 97	\$ 67	\$ 40	—	—	—	—
Minority Interest	\$ 356	—	—	—	—	—	—	—
Shareholders' equity	\$ 4,525	\$ 4,177	\$ 3,884	\$ 3,815	\$ 3,361	\$ 3,152	\$ 3,048	\$ 2,839
Current assets/Current liabilities	1.4:1	1.4:1	1.5:1	1.4:1	1.6:1	1.7:1	1.6:1	1.7:1
Long-term debt/equity ratio	35:65	37:63	39:61	15:85	18:82	21:79	23:77	25:75
Additions to facilities	\$ 392	\$ 475	\$ 1,153	\$ 992	\$ 51	\$ 32	\$ 57	\$ 380
Total Assets	\$17,865	\$14,835	\$12,926	\$10,369	\$ 8,792	\$ 7,788	\$ 8,395	\$ 7,179

Hugh Russel & Sons, Limited

and its subsidiary companies

Statement of Consolidated Earnings For the year ended December 31, 1967

(with comparative figures for 1966)

	1967	1966
Sales	<u>\$32,473,519</u>	<u>\$24,157,024</u>
Earnings from operations before deducting depreciation, interest on long-term debt, income taxes and minority interest	\$ 1,209,875	\$ 1,353,800
Less:		
Depreciation	245,313	205,291
Interest on long-term debt	<u>152,844</u>	<u>155,781</u>
Earnings before income taxes and minority interest	811,718	992,728
Income taxes	370,984	488,000
Minority interest	<u>5,834</u>	<u>—</u>
Net earnings for the year	<u>\$ 434,900</u>	<u>\$ 504,728</u>

(See accompanying notes)

Statement of Consolidated Retained Earnings For the year ended December 31, 1967

(with comparative figures for 1966)

	1967	1966
Balance, beginning of year	\$ 4,058,864	\$ 3,789,258
Net earnings for the year	<u>434,900</u>	<u>504,728</u>
	4,493,764	4,293,986
Dividends paid (including in 1967 stock dividends on Class "B" common shares and special tax thereon)	<u>243,167</u>	<u>235,122</u>
Balance, end of year	<u>\$ 4,250,597</u>	<u>\$ 4,058,864</u>

(See accompanying notes)

Hugh Russel & Sons, Limited

(Incorporated under the laws of Canada)
and its subsidiary companies

CONSOLIDATED BALANCE SHEET

DECEMBER 31, 1967

(with comparative figures at December 31, 1966)

ASSETS	1967	1966
Current:		
Accounts receivable, less allowance for doubtful accounts	\$ 5,952,375	\$ 4,352,612
Inventories valued at the lower of average cost and market (net realizable value)	7,825,396	7,186,219
Prepaid expenses and other assets	313,429	162,517
Total current assets	<u>14,091,200</u>	<u>11,701,348</u>
Fixed, at cost:		
Land	320,655	320,655
Buildings	2,592,785	2,551,214
Machinery and equipment	2,131,583	1,543,174
	<u>5,045,023</u>	<u>4,415,043</u>
Less accumulated depreciation	<u>1,784,466</u>	<u>1,281,891</u>
	<u>3,260,557</u>	<u>3,133,152</u>
Other:		
Prior years income taxes recoverable (note 4)	154,825	—
Premiums paid on acquisitions	358,718	—
	<u>513,543</u>	<u>—</u>
	<u>\$17,865,300</u>	<u>\$14,834,500</u>
LIABILITIES		
Current:		
Bank indebtedness (against which certain assets are pledged)	\$ 4,000,527	\$ 1,714,934
Short-term loan payable	1,000,000	1,500,000
Accounts payable and accrued charges	5,232,224	4,757,210
Income taxes payable	152,139	116,782
Sinking fund redemption due within one year	—	18,000
Total current liabilities	<u>10,384,890</u>	<u>8,106,926</u>
Deferred income taxes	200,000	97,500
Long-term debt (note 1)	<u>2,399,000</u>	<u>2,453,000</u>
Minority interest in preference shares of subsidiary	<u>355,834</u>	<u>—</u>
Shareholders' equity:		
Capital Stock—		
Authorized (note 2):		
Issued (note 2):		
103,112 Class "A" common shares		
204,885 Class "B" common shares		
(1966— 294,325 common shares)	274,979	118,210
Retained earnings	<u>4,250,597</u>	<u>4,058,864</u>
On behalf of the Board:	<u>4,525,576</u>	<u>4,177,074</u>
A. D. Russel, Director	<u>\$17,865,300</u>	<u>\$14,834,500</u>
M. D. Glenn, Director		

(See accompanying notes)

Hugh Russel & Sons, Limited

and its subsidiary companies

Notes to Consolidated Financial Statements

DECEMBER 31, 1967

1. Long-term debt —

6¼% Secured Sinking Fund Debentures, Series A, maturing October 15, 1985 —

Originally authorized.....	<u>\$2,500,000</u>
Outstanding (\$54,000 redeemed during the year for sinking fund)....	<u>\$2,399,000</u>

The debentures are secured by a first mortgage on the fixed assets of the company and certain subsidiaries and a first floating charge on their remaining assets. The trust deed provides for a sinking fund to retire by redemption \$1,500,000 principal amount by progressive annual appropriations in the years 1968 to 1984 inclusive. Under the terms of the trust deed, the company is prohibited from paying dividends other than cumulative preferred dividends or stock dividends, if the combined equity of the company and certain subsidiaries is reduced to less than \$3,500,000 or combined net current assets are reduced to less than \$2,000,000.

2. Capital stock —

On May 1 and October 2 of 1967 the Company obtained Supplementary Letters Patent confirming the following authorized capital:

Preferred shares:

- 30,000 First preferred shares of the par value of \$100 each, issuable in series, redeemable at par, (previously designated as preferred shares).
- 20,000 6¼% Cumulative First preferred shares Series "A", of the par value of \$100 each, redeemable at \$106.50, (previously designated as preferred shares).
- 75,000,000 4% non-cumulative Second preferred shares of the par value of 1¢ each, redeemable at par.

Common shares:

1,000,000 Class "A" common shares without par value, convertible into Class "B" common shares on a share for share basis.

1,000,000 Class "B" common shares without par value, convertible into Class "A" common shares on a share for share basis.

The previously authorized common share capital was 1,000,000 common shares without par value.

During the year the company issued 6,944,840 Second preferred shares at par as stock dividends on the Class "B" common shares and later redeemed them out of capital for cash, resulting in 68,055,160 Second preferred shares authorized as at December 31, 1967.

During the year 13,672 Class "A" common shares were issued for \$156,769 as a result of options exercised by officers and employees under the company's stock option plan. At December 31, 1967, 4,606 Class "A" common shares were reserved for issue under options granted to officers and employees and exercisable in instalments over periods ending January 27, 1977, as follows: —

- 2,500 shares at \$11.25 per share
- 556 shares at \$12.15 per share
- 1,550 shares at \$13.50 per share

An additional 20,758 Class "A" common shares are reserved as follows: —

15,758 shares for additional options to be granted in the future.

5,000 shares for the company's employee share purchase plan which came into effect August 1, 1967.

3. Depreciation —

Depreciation has been provided on the fixed assets of the Companies on a straight line basis at the following rates: —

- Buildings — 2½% and 5%.
- Machinery and equipment — 10%.

4. Prior years income taxes recoverable —

Additional income taxes have been assessed as a result of the disallowance of the carry-forward of losses of two subsidiary companies incurred in pre-acquisition periods. Appeals from the assessments have been filed and the company anticipates that the appeals will be successful.

5. Statutory information —

Remuneration of \$188,367 to directors and senior officers has been deducted in determining net earnings.

Hugh Russel & Sons, Limited

and its subsidiary companies

Statement of Consolidated Source and Application of Funds

FOR THE YEAR ENDED DECEMBER 31, 1967

(with comparative figures for 1966)

Funds were obtained from :	1967	1966
Operations—		
Net earnings for the year	\$ 434,900	\$ 504,728
Expenses not requiring a current cash outlay:		
Depreciation	245,313	205,291
Income taxes (deferred portion)	102,500	31,000
	<u>782,713</u>	<u>741,019</u>
Investment by minority shareholders	355,834	—
Sale of fixed assets	18,804	37,246
Stock options exercised	156,769	23,138
	<u>1,314,120</u>	<u>801,403</u>
Funds were applied to :		
Pay premiums on acquisitions	358,718	—
Purchase new facilities	391,522	474,636
Pay dividends	243,167	235,122
Pay prior years income taxes	154,825	—
Retire debentures	54,000	47,000
	<u>1,202,232</u>	<u>756,758</u>
Increase in working capital	111,888	44,645
Working capital at beginning of year	3,594,422	3,549,777
Working capital at end of year	<u>\$3,706,310</u>	<u>\$3,594,422</u>

(See accompanying notes)

Auditors' Report

To the Shareholders of Hugh Russel & Sons, Limited:

We have examined the consolidated balance sheet of Hugh Russel & Sons, Limited and its subsidiary companies as at December 31, 1967 and the statements of consolidated earnings, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1967 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Clarkson, Gordon & Co.

Montreal, Canada,
January 26, 1968.

Chartered Accountants.



**Hugh Russel
& Sons, Limited**

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